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TAGS: ECON EINV ETRD EFIN TU
SUBJECT: TURKEY: AS PRICING DEADLINE NEARS, PHARMA INDUSTRY GIVES NEW PROPOSAL

REF: A. ANKARA 1352
¶B. ANKARA 1503

Classified By: Acting Economic Counselor Jeffrey Borenstein for reason 1.4(d).

¶1. (C) Summary. Following the GOT's rejection of pharmaceutical industry proposals to close the health care budget gap (described in reftels), the sector has been forced back to the drawing board with little time left before the December 4 implementation deadline. The GOT indicated that it was dissatisfied with the level of savings in the industry proposal (TL 2.5 billion vice TL 3.5 billion under the GOT plan) and also wanted a plan that covered the next three years instead of just 2010. On November 20, both local and foreign producers agreed to a unified proposal that attempts to meet these concerns. The new proposal, which would cover the period through 2012, does not fully meet the GOT's savings goals, but does include a new mechanism for gradually adjusting the discount rates if there are budget overruns. Adding a new wrinkle, the pharmacists' union is threatening to simply return the entire production of over 4000 drugs to the manufacturers rather than sell the drugs at unsustainably low levels, which could have widespread public health implications. Both U.S. and European firms are also planning to wash their hands of Turkey after this experience, shutting down local production entirely and moving to more investment-friendly climes. End summary.

¶2. (SBU) As described ref B, the pharmaceutical industry as a whole made a proposal to the Ministry of Health (MOH) to help close Turkey's growing health care budget gap in a way that minimized but did not avoid damage to the industry and its viability. In various informal conversations over the week of November 16, Deputy Prime Minister Ali Babacan informed industry representatives that the proposal was insufficient and that the GOT would be sticking to its original plan as laid out in the Septemebr 18 pricing decree, due to take effect on December 4. Babacan specifically cited as problems the lower level of savings in the industry proposal (TL 2.5 billion vice TL 3.5 billion in the GOT plan) and the one-year timeframe of the industry proposal, stating that the GOT needs budgetary predictability at least through 2012.

¶3. (C) Faced with the looming December 4 deadline, representatives of the local and foreign manufacturers met and on the evening of November 20 agreed on a new three-year proposal, which the MOH is currently evaluating. The new proposal calls for:

-- The price for original drugs with a generic version and generics would be capped at 70 percent of the lowest

reference price (vice 60 percent in the decree);

-- Products older than 20 years with a retail price above 10 TL would be brought down to the reference price (due to a quirk of the law, older products were excluded from the reference pricing system);

-- The additional discount on original drugs without a generic version would be set at 10 percent, for a total discount of 21 percent (vice an additional discount of 13 percent and total discount of 24 percent in the decree); and,

-- If the GOT exceeds its budget for the years 2010-2012, the excess costs would first be addressed by a reduction to 69 percent of the reference price for products with a generic version and generics. If that is not sufficient, a gradual increase of one percent increments in the discount on original drugs would be applied. If still further measures are needed, the 69 percent reference price would be reduced in one percentage point increments until it reaches 60 percent.

In exchange for these discounts and the sharing of risk on budget overruns, the GOT would be expected to agree to a moratorium on new adjustments to the pricing mechanism through 2012. Although the projected level of savings is still in the TL 2.5 billion range, raising the risk of another rejection, the industry is hopeful that the risk-sharing aspect and the longer-term commitment will be attractive to the GOT. The total pharmaceutical market in Turkey is around TL 15 billion per year.

¶4. (C) Jeffrey Kemprecos, Government Relations Manager at

Merck, Sharpe & Dohme, noted to us that this is actually a terrible deal for the private sector, and especially for the foreign firms who will continue to bear upward of 75 percent of the cost. The GOT budget targets for 2010 and 2011 are already below the amount that they have actually spent in 2009, so the industry is shouldering considerable risk by agreeing to defray overruns. Kemprecos also worried that the plan provides disincentives for the MOH to approve new drugs (which would carry a lower discount) and also creates a substantial moral hazard by removing any reason to spend more efficiently. He admitted that the deal has gotten so bad that several companies' front offices are worried about the precedent it might set for other countries, but felt that it is still a better option than the GOT's system, which would make it nearly impossible to operate profitably in Turkey.

¶5. (SBU) Further complicating matters is a threat by the pharmacists' unions to send back stocks of over 4000 types of drugs to the manufacturers rather than sell them at unsustainably low prices. Nurten Saydan, President of the Union of Pharmacist Employers (TEIS), told the press that Turkey's 23,000 pharmacists (many of them extremely small businesses) anticipate losses of over TL 200 million from the decree as written. Saydan suggested that unless the manufacturers reimburse the pharmacists for these losses, a large portion of the distribution chain will simply cease to function. (Note: Estimates of the number of failures range as high as 7000 pharmacies, although this is probably exaggerated. End Note.) If the pharmacists carry through on their threat, many vital drugs - including cancer and diabetes treatments - will effectively cease to be available in Turkey. Products flowing backward through the supply chain will also complicate delivery of those drugs still being brought to the market. Kemprecos observed that the pharmacists have become the wild card in the equation, but that he hoped the specter of a public relations disaster might make the GOT more amenable to compromise.

¶6. (C) Comment: Regardless of whether or not the GOT agrees to this new deal, the government's intransigence on this issue has convinced several firms that continued investment in Turkey may be too risky to justify. At least one American firm and one European firm have already confirmed plans to shut down local production of drugs entirely no matter what

the GOT decides, citing a lack of predictability as their key concern. Other firms have cancelled planned investments and scaled back substantially on existing operations. This is especially discouraging in a sector that at the start of the year was one of Turkey's most promising investment opportunities. End comment.

JEFFREY